The Conference Board

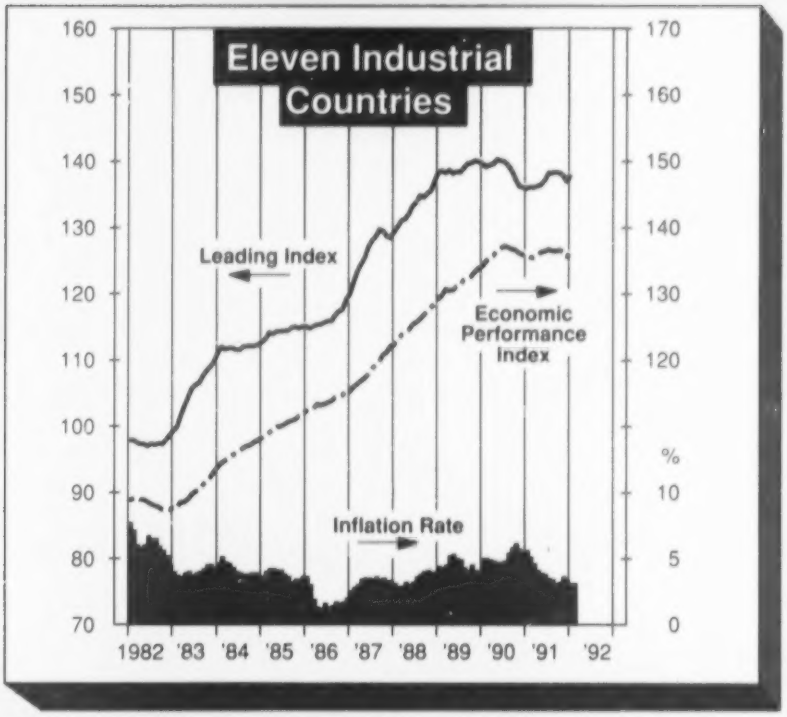
Volume 14, Number 4 April 1992

International Economic Scoreboard™

INSIDE:

- **Global Business Cycle Stuck in Neutral**
- **United States Leaders Strong But Full Recovery Still Only a Promise**
- **Worries About Japan Worsen**
- **Inflation Falling Widely**

World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate	Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered
	1976-86	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
Eleven countries	3	1	1	0	2	2	1	Recovery stalled, leaders weak	Jan.
Ten countries (U.S. excl.)	3	3	2	2	-1	-2	-3	Expansion slowing, leaders weak	Jan.
North America (2)	3	-3	-1	-2	4	7	7	Recovery underway	Jan.
Europe (4)	2	2	1	1	3	1	0	Expansion slowing, leaders weak	Jan.
Pacific Region (5)	4	4	3	3	-5	-5	-7	Expansion continuing, leaders weak	Jan.
United States	3	-2	-1	-1	6	7	8	Recovery underway	Feb.
Canada	3	1	0	-1	0	-2	-2	Recovery stalled, leaders weak	Jan.
West Germany	2	4	1	1	1	-1	-1	Expansion slowing, leaders weak	Jan.
France	2	4	4	3	6	1	3	Expansion continuing	Jan./Feb.
United Kingdom	2	-4	-3	-2	2	0	1	Recession continuing, leaders weak	Jan.
Italy	2	0	2	2	2	0	2	Expansion stopped, leaders improving	Oct./Jan.
Japan	4	6	4	3	-7	-7	-10	Expansion slowing, leaders weak	Jan.
Korea, R.O.K.	7	8	4	4	8	7	6	Expansion continuing	Feb.
Australia	3	-4	-5	-2	1	0	2	Recession continuing, leaders improving	Feb.
New Zealand	2	-2	-2	-2	0	4	6	Recession continuing, leaders improving	Dec./Jan.
Taiwan, R.O.C.	8	5	4	8	9	8	8	Expansion continuing	Feb.

* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

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Overview

Stuck In Neutral

The global business cycle still appears to be stuck in neutral gear. Both the composite indexes for these 11 countries have been pretty much flat over the past year. The one source of optimism is the international diffusion index shown on page 4.

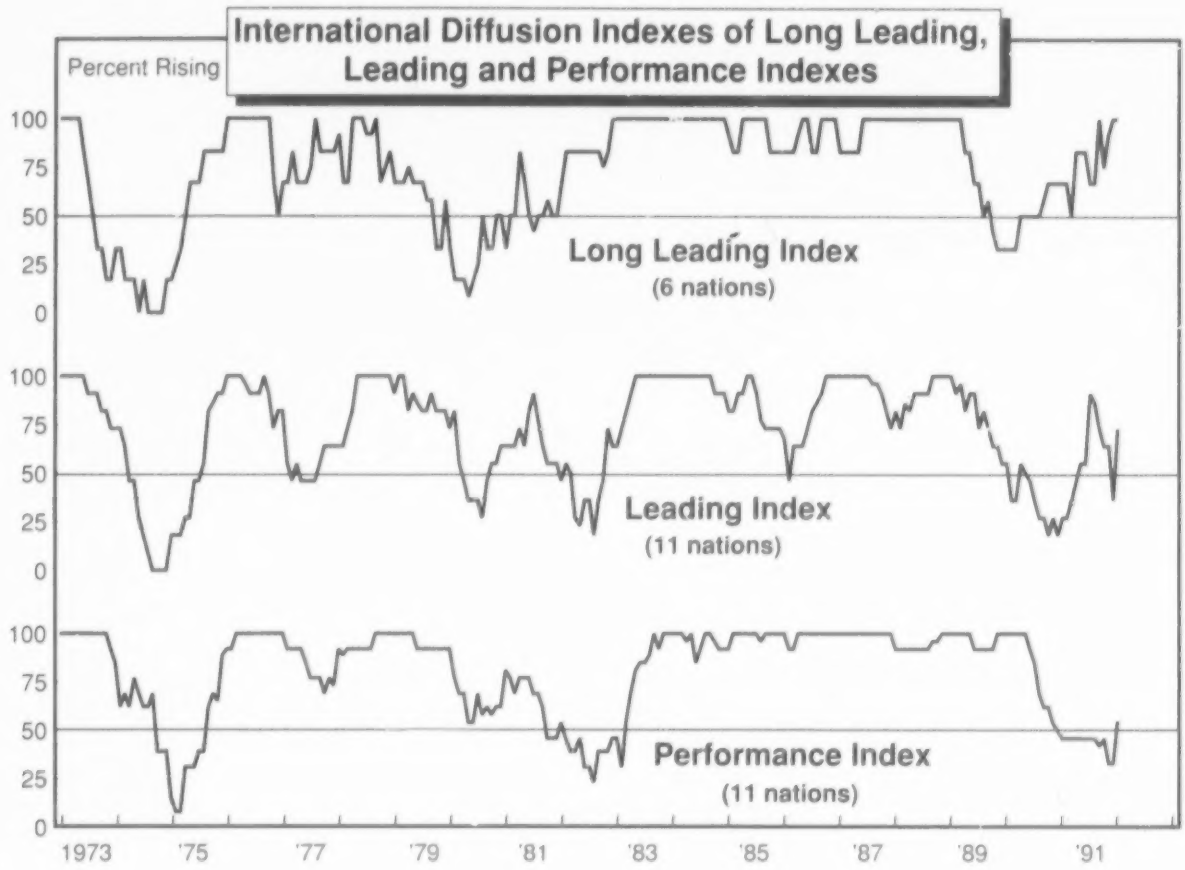
A country-by-country review of the leading indexes reinforces the idea of a becalmed cycle. Among the large economies, the upswing of the leaders in the United States (+8 percent) is offset by the decline in Japan (-10 percent), while the four European countries have slow rates ranging from -1 in West Germany to +3 in France.

The main source of encouragement these days is the inflation story. The 11-country composite rate is at 3.1 percent, down from around 6 percent when oil prices were surging in late 1990 and, in fact, the slowest rate of inflation recorded for the industrial world in some 4 years.

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	*6 mos.* ago*	*3 mos.* ago*	*Latest* month*	*Current Reading on Inflation*	*Latest Month Covered*
		annual rates, percent				
Eleven countries	5.3	3.4	3.6	3.1	Falling	Feb.
Ten countries (U.S. excl.)	5.2	3.9	4.1	3.1	Falling	Feb.
North America (2)	5.6	3.2	3.2	2.7	Falling	Feb.
Europe (4)	6.6	4.4	4.6	4.1	Falling	Feb.
Pacific Region (5)	3.4	3.0	3.4	2.3	Falling	Feb.
United States	5.5	3.0	3.0	3.5	Rising	Mar.
Canada	6.5	4.4	2.8	0.9	Low and Falling	Feb.
West Germany	2.9	4.8	4.8	4.1	Falling	Feb.
France	7.3	2.8	3.2	3.4	Rising	Feb.
United Kingdom	7.3	4.2	4.2	4.0	Steady	Feb.
Italy	11.2	5.8	5.8	5.2	Falling	Mar.
Japan	2.5	2.7	3.2	1.9	Low and Falling	Feb.
Korea, R.O.K.	8.1	9.7	9.1	6.9	Falling	Feb.
Australia	8.4	2.4	1.8	2.0	Low and Volatile	Nov.
New Zealand	11.8	2.1	1.4	0.2	Low and Falling	Nov.
Taiwan, R.O.C.	4.4	3.2	5.5	5.8	Rising	Feb.

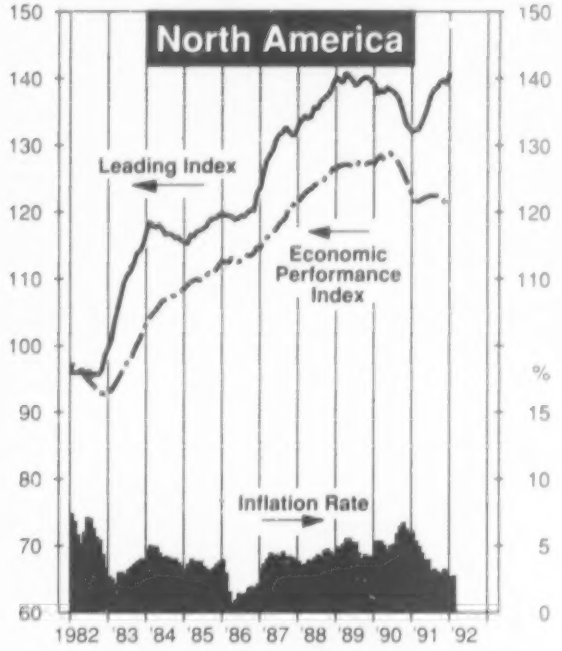
* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.



Signals of an Upswing

The international diffusion indexes in the chart above provide a signal that the global business cycle is on the upgrade. Each diffusion index has been rising of late, telling us that an increasing proportion of countries is reporting gains in their economic indicators.

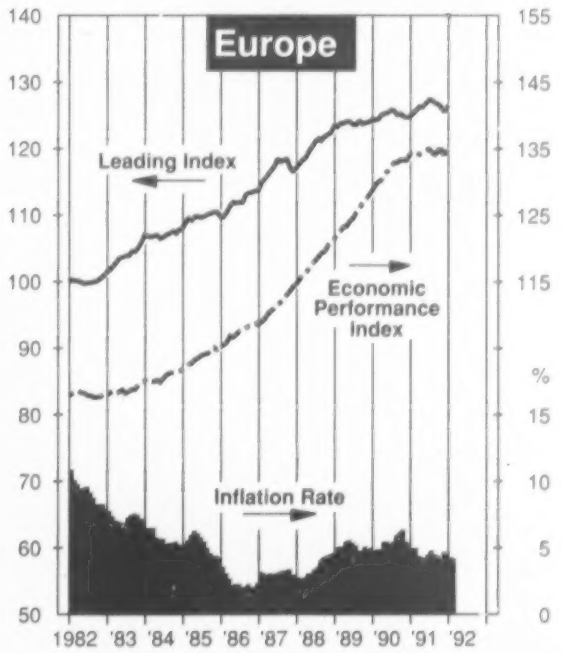
Furthermore, the sequence of the upturns in the three diffusion indexes is behaving according to Hoyle. The diffusion index for the leaders started rising earlier than the diffusion index based on the performance measures, and the diffusion index based on the long leaders started rising earlier yet. In other words, the leading indexes lead the economy, and the long leading indexes lead still more.

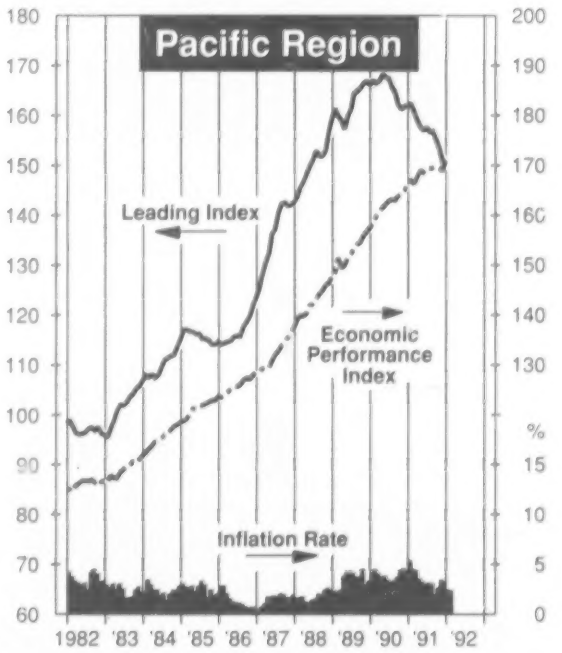


Mixed Pattern Persists

The business cycle patterns in each of the three major regions of the world have hardly changed at all in recent months. North America, dominated by the United States, shows no pick-up in the economy thus far but a strong suggestion from the leading index that revival is close at hand. In Europe, the business cycle is stalled, as both indexes are flat. And in the Pacific, dominated by Japan, the performance index shows that economic growth is leveling off, but the possibility of an actual downturn is signaled by the continuing free-fall in the leading index.

Inflation looks favorable in both North America (2.7 percent) and the Pacific Region (2.3 percent), but only so-so in Europe (4.1 percent).



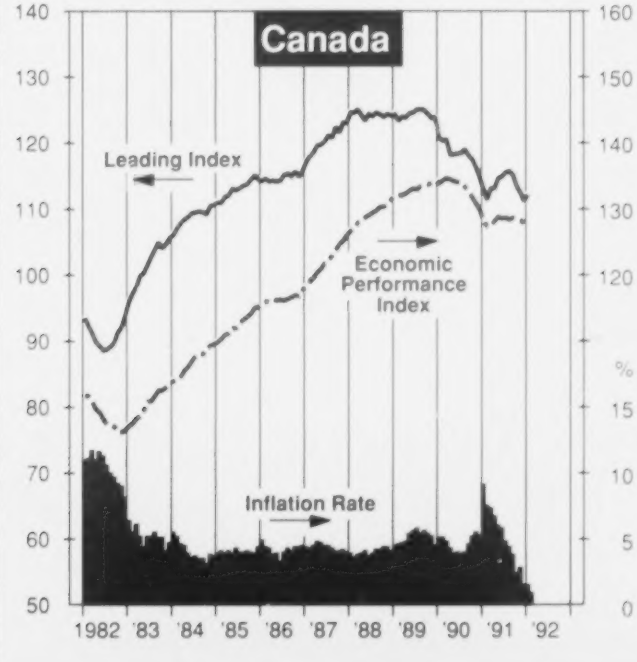


Countries

Full Recovery Still Just A Promise

The U.S. indexes continue to exhibit the strong promise of a full cyclical recovery, but not the realization. The evidence is clear: The performance index has remained generally flat in recent months, while the leading index has gained additional strength. Among the component series of the leading index, the improvement has been fairly widespread, but the largest contributions have come from new housing permits, common stock prices, and more recently industrial materials prices.

The U.S. inflation rate accelerated by half a percentage point in March. Part of the speed up can be traced to the often erratic components of food and energy, but the remaining three fourths of the consumer price index also accelerated. With capacity utilization low and wages continuing to be well behaved, however, this March report does not look like the precursor of a new surge of price inflation.

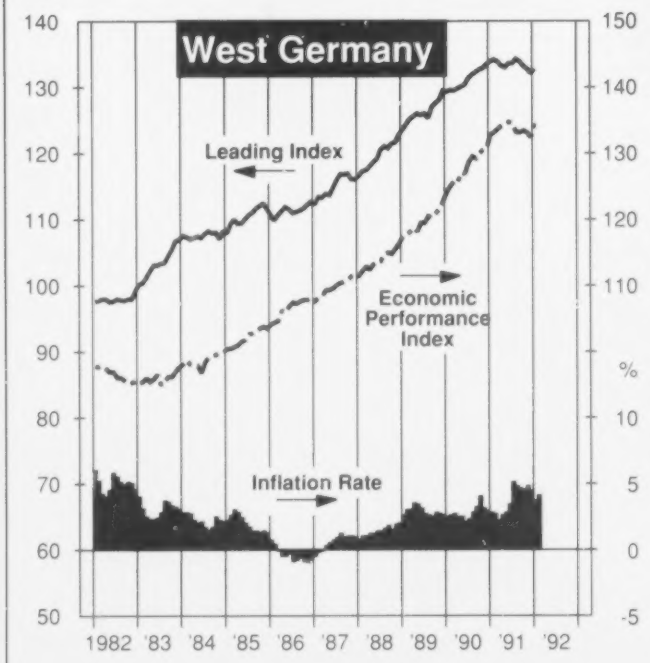


Weakness Persists

The Canadian cyclical indexes are disappointing. The performance index has been treading water for a year. Unemployment is in excess of 10 percent. In sharp contrast to the United States the leading index has weakened again in recent months. Profit margins, consumer goods orders, and unemployment claims are especially weak. Industrial materials prices are about the only leading indicator showing strength.

Because exports represent about 30 percent of Canada's output and the United States takes almost 80 percent of Canada's exports, the coming cyclical revival in the United States is the best hope for a Canadian recovery.

The inflation rate continues to fall rapidly. At latest report it is below 1 percent, the second lowest rate shown in the Scoreboard.

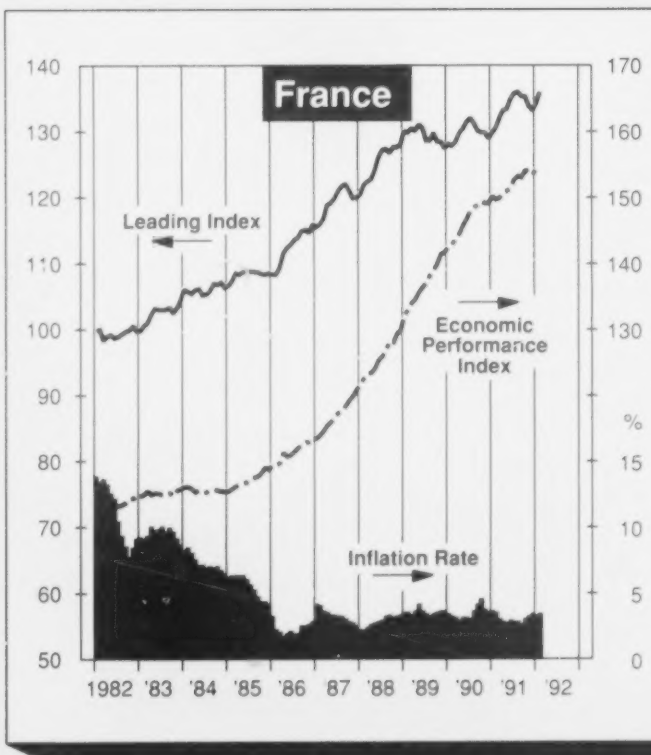


Unification Blues

The West German economy continues to throw off mixed signals. Neither the performance index, which has been pretty much flat, nor the leading index, which has been tilting slightly down, are giving any decisive indication of the prospective cyclical direction. Most forecasts call for continued slow expansion, but in the present atmosphere it's difficult to be confident about any forecast.

Within Germany, inflation is the dominant issue. The rise in consumer prices has slowed a bit in recent months, although the rate remains unacceptably high. The main focus, however, is on wage settlements, which thus far show no signs of abating. The latest confrontation in this issue is a massive strike called by public service workers. Interest rates seem destined to remain high, at least until the wage issue is resolved.

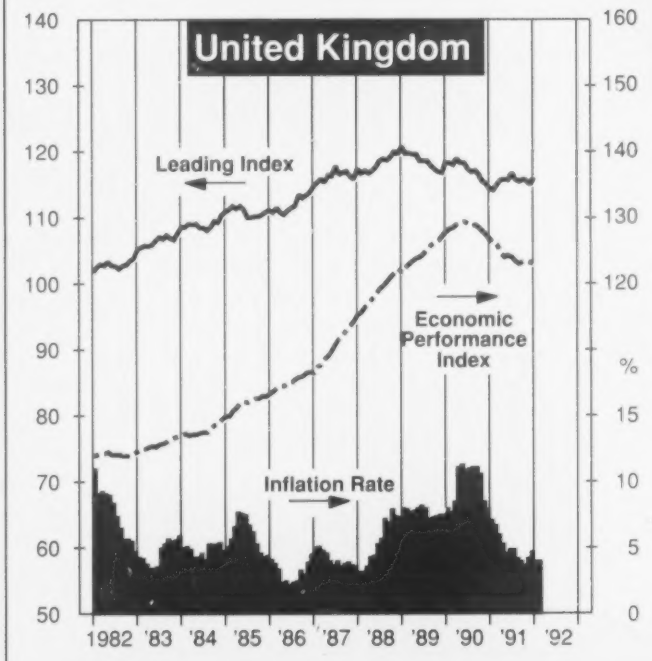
Perhaps the best explanation of the current situation is (in an apt phrase from First Boston) that Germany is "over stretched by unification."



A Slight Improvement

Although most European forecasters seem disappointed about the outlook for the French economy, both cyclical indexes appear to be a bit more favorable again. The performance index continues to rise gradually—at a 3 percent rate—and the leading index, after a weak fourth quarter, bounced back nicely in January and February. The recent improvement in the leaders was sparked by rising orders, materials prices and common stock prices.

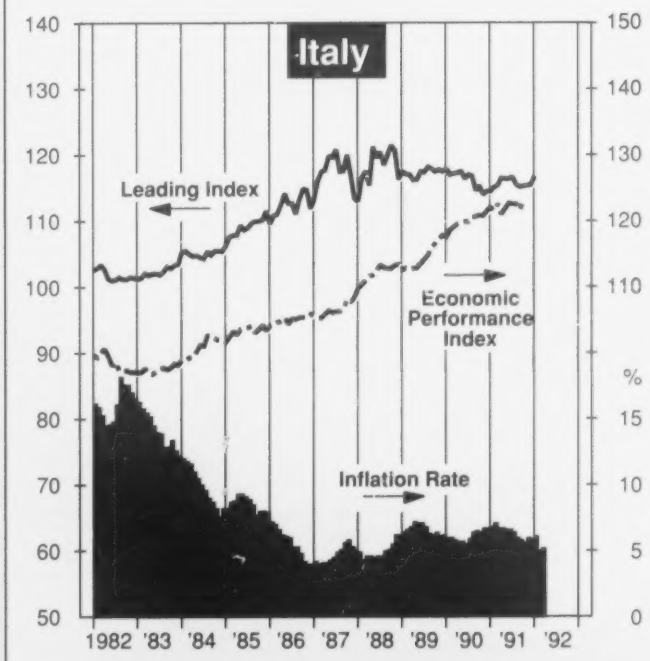
The French inflation rate has held stable at a rate that appears to be tolerable.



Becalmed

The British economy continues to look weak. Both the performance and leading indexes have been going nowhere for some months. Among the leading indicators, profit margins and business failures have been especially disappointing. Inflation remains flat, too.

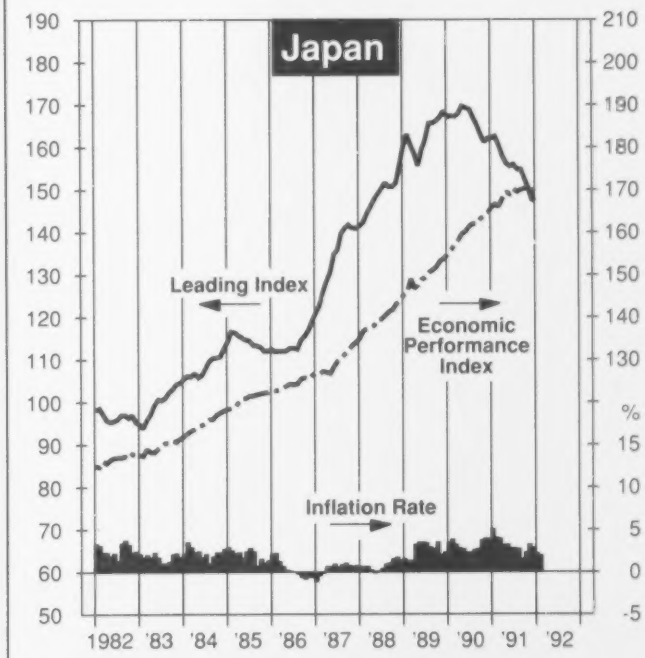
The unexpected reelection of the Conservative Party has given the U.K. financial markets a lift, but whether it will do the same for the economy is open to question at this point.



Cloudy Crystal Ball

The crystal ball for the Italian economy seems as clouded as ever. One reason is the absence of up-to-date information (a complaint not at all new to our readers). Another is the basically flat (but highly erratic) movements of the cyclical indexes recently. Both have a slight upward tilt, but not enough to inspire confidence about the outlook.

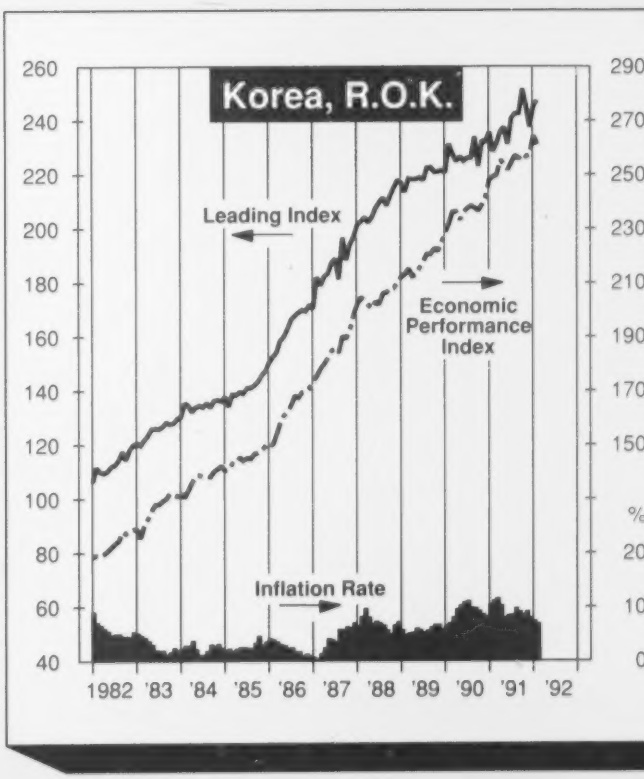
At 5.2 percent, the italian inflation rate is about as low as it's been over the past 3 years. It remains the highest rate of our 4 European countries, however.



So Far the Sky Is Not Falling

Worries about the Japanese economy have reached new highs, predominantly in the financial sector where collapsing stock prices—on average down more than 50 percent since the year-end 1989 peak—have produced widespread sky-is-falling panic. In not a few cases, the reality is close to that: many real estate speculators, housing contractors, mortgage companies, and small banks have failed. Rumors abound that many larger firms are headed for the same fate. This pessimism is confirmed by the prolonged drop in the leading index—and the drop reflects serious weakness in a broad range of leading indicators, not just stock prices.

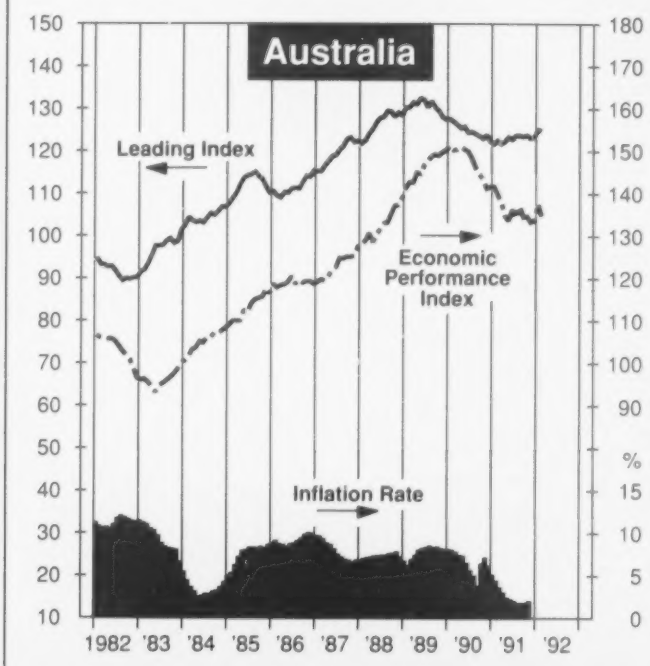
The performance index, however, is still advancing, although slowly. This has been the general pattern in past Japanese "recessions"—economic growth slows down, but the economy doesn't go through an actual contraction in economic activity. Despite the long, steep drop in the leading index, most forecasters expect the same thing to happen here in 1992.



Steady Moderate Expansion

The Korean economy continues to expand, but by past standards not vigorously. The economic performance index is showing a 4 percent growth rate (against an historical average of 7 percent), and the leading index is rising at a 6 percent rate.

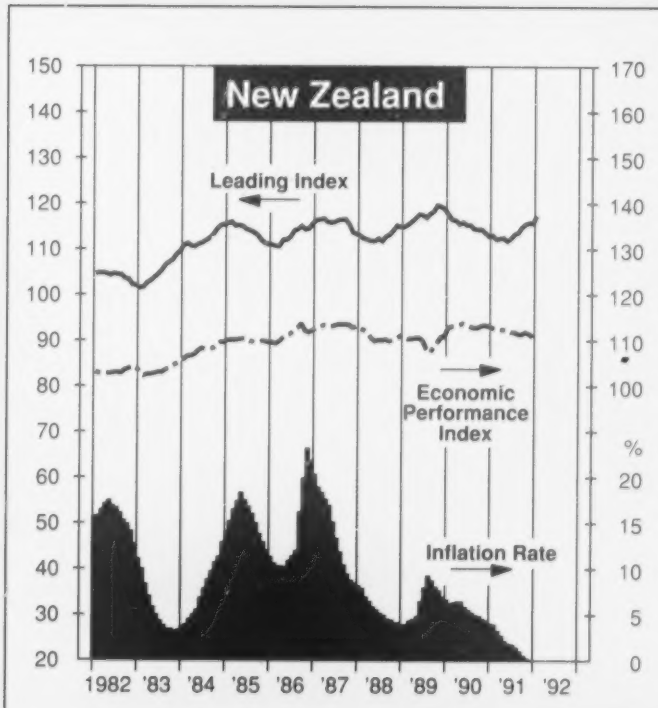
The inflation rate, at 6.9 percent, has been falling steadily in recent months, but is still the highest among our 11 countries.

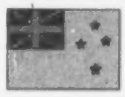


Sluggish Upturn Ahead

In view of the long recession Australia has been through over the past two years, it takes an extra helping of courage to be optimistic about the Down-Under outlook. Nevertheless, although the present posture of the Australian indexes is less than decisive, it takes only a slight optimistic bias to read the beginning of cyclical recovery into their recent movements. We said something similar a few months ago, and our conclusion proved to be premature, and that's another reason we are inclined to be cautious now. But the beginning of recovery is how it looks to us just now.

On the pessimistic side, two points should be made. First, the slowing of growth in Japan is an important negative for Australia, because Japan is Australia's largest export market. Second, although inflation is quite low (2.0 percent at latest reading), which in several ways is a highly favorable omen, it also means that, despite the big drop in interest rates, the cost of capital continues to be very high (10 or 11 percent from the "real" prime rate), a formidable barrier to the revival of capital investment. Consequently, the coming cyclical upswing seems likely to be sluggish.



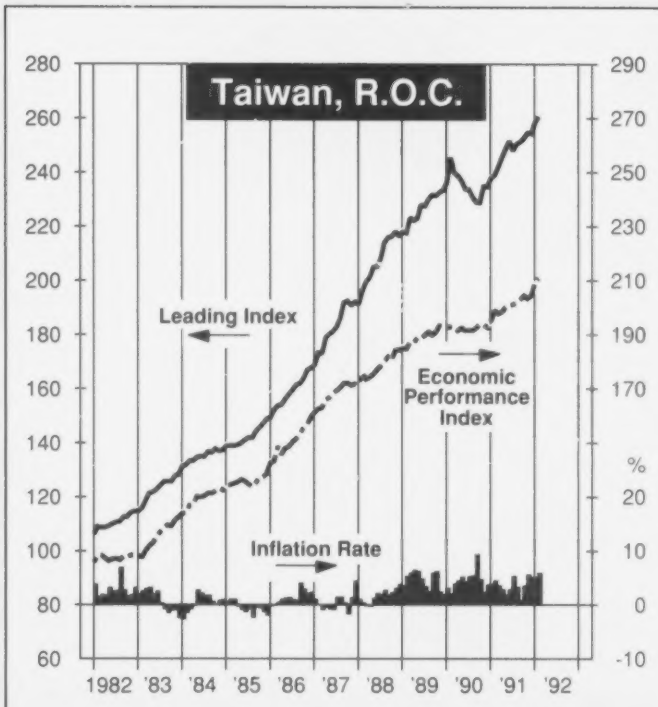


Once Again, Hope of Recovery

At latest report, the Kiwi economy still seems to be sliding along the bottom of its long recession. Unemployment is at 11 percent and still rising through February.

The leading index has turned around, however, and is once again pointing emphatically toward cyclical recovery. It is important not to rely too heavily on a brief pick-up in the leaders, however, in view of how limited and short-lived was the response of the New Zealand economy to a similar improvement in the leaders in 1989. Hopefully, the developing recovery will not abort this time around.

We can take encouragement from the recent inflation record. As of November inflation was all but vanquished, with the rate down to a minuscule 0.2 percent, the lowest of all eleven countries.



Impressive Growth

Taiwan's economy is expanding rapidly. The performance index is advancing at an 8 percent rate, and the leading index at 9 percent. These are the strongest growth rates in the *Scoreboard* and impressive by any standard other than Taiwan's own history, which shows a 10-year growth rate of 8 percent per year.

At least part of the negative impact on Taiwan from the slowing of the Japanese economy is being offset by the strengthening growth in China.

Taiwan's inflation rate, at 6 percent, is accelerating, which is not altogether surprising in view of the strong cyclical upswing taking place.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too — typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Phillip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research, Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1990-92

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Indexes, 1980=100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	90	137	138	144	138	126	135	133	125	164	162
Nov.	90	136	136	144	138	125	133	133	125	164	162
Dec.	90	136	136	145	138	124	133	133	125	165	162
Jan.	91	136	136	146	138	122	132	134	125	166	162
Feb.	91	136	136	146	138	122	132	134	125	167	162
Mar.	91	136	136	146	138	122	132	134	126	166	161
Apr.	91	136	136	146	137	122	133	134	126	168	159
May	91	137	137	147	137	122	134	134	126	169	158
June	91	137	137	147	137	122	136	135	127	169	157
July	91	137	138	147	138	122	138	135	127	170	158
Aug.	91	137	138	147	137	122	138	134	127	170	157
Sept.	91	137	139	147	137	122	139	134	127	170	157
Oct.	91	137	138	147	136	122	140	135	127	170	155
Nov.	91	137	138	147	135	122	140	135	126	170	154
Dec.	91	136	137	146	134	121	139	134	126	169	151
Jan.	92	137	138	148	135	121	141	135	127	171	151

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Growth Rates, Percent									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	90	2	-3	4	-2	-2	-4	4	1	5	-5
Nov.	90	1	-4	3	-3	-4	-6	4	0	4	-6
Dec.	90	0	-4	3	-2	-5	-6	3	0	4	-4
Jan.	91	0	-4	4	-2	-7	-6	4	0	5	-4
Feb.	91	-1	-3	3	-2	-7	-5	3	0	5	-3
Mar.	91	-1	-3	2	-2	-7	-5	2	1	3	-4
Apr.	91	-1	-2	2	-2	-6	-3	2	2	4	-6
May	91	0	-2	3	-2	-4	-1	2	1	5	-7
June	91	0	0	2	-2	-4	2	2	2	4	-6
July	91	1	2	3	-1	-3	4	2	3	4	-5
Aug.	91	0	2	2	-1	-2	5	1	2	4	-5
Sept.	91	0	2	1	-1	-1	6	0	1	3	-4
Oct.	91	1	2	2	-2	-1	7	1	1	3	-5
Nov.	91	0	1	1	-3	-1	6	1	0	2	-6
Dec.	91	-1	0	0	-4	-2	5	-1	-1	1	-9
Jan.	92	0	1	2	-3	-2	7	1	0	3	-7
		Ten Year Annual Growth Rate, Percent									
		3	3	3	3	3	3	2	2	4	4

INDEXES, ELEVEN COUNTRIES, 1990-92

		United States		Canada		West Germany		France		United Kingdom		Italy		Japan		Korea, R.O.K.		Australia		New Zealand		Taiwan, R.O.C.	
		Indexes, 1980=100																					
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	90	126	137	132	118	130	133	150	130	128	116	121	115	163	163	237	223	143	123	113	114	195	230
Nov.	90	124	135	131	116	130	133	149	130	128	115	121	114	164	161	239	233	141	124	113	114	194	236
Dec.	90	124	134	130	115	131	134	149	129	127	115	121	114	164	162	242	232	141	122	113	113	194	236
Jan.	91	122	134	128	113	133	134	150	130	126	114	122	114	166	162	248	236	142	122	113	113	196	239
Feb.	91	121	134	128	112	133	134	150	131	126	114	121	115	166	162	249	229	140	122	112	112	200	240
Mar.	91	121	134	128	113	134	134	150	132	126	115	122	115	166	160	250	232	138	122	112	112	199	243
Apr.	91	121	135	128	113	134	133	151	133	124	116	121	116	168	158	256	236	135	122	112	112	199	246
May	91	122	136	129	115	134	133	151	133	124	116	122	116	169	156	254	238	136	123	112	112	201	249
June	91	122	138	129	115	135	134	152	135	124	116	122	116	169	156	252	231	136	123	112	112	202	252
July	91	122	140	129	116	134	134	153	136	124	116	122	116	170	156	254	241	134	124	112	113	202	249
Aug.	91	122	140	129	116	133	134	153	136	123	116	122	115	170	155	257	243	137	124	111	114	203	251
Sept.	91	122	141	129	115	133	134	153	135	123	115	122	115	170	155	256	242	134	123	111	115	204	252
Oct.	91	122	142	129	114	133	133	154	135	123	116	123	115	170	152	258	252	135	124	112	115	205	254
Nov.	91	121	142	128	113	133	133	154	134	123	115		115	170	150	257	246	133	123	111	116	204	255
Dec.	91	121	142	128	111	132	132	154	133	123	115		115	169	148	257	238	134	123	111	116	205	255
Jan.	92	120	144	128	112	134	133	154	134	123	116		117	171	147	264	246	138	125		117	210	260
Feb.	92	121	145						136							261	248	135	125			212	262
		Growth Rates, Percent																					
Oct.	90	-2	-4	-3	-4	7	4	6	0	0	-2	3	-3	6	-5	4	-2	-7	-5	1	-3	2	-5
Nov.	90	-4	-6	-4	-5	6	4	5	0	-1	-3	2	-4	6	-7	4	6	-9	-3	0	-4	1	0
Dec.	90	-5	-6	-5	-7	6	4	4	-1	-2	-4	3	-3	6	-5	6	4	-8	-4	0	-4	0	0
Jan.	91	-7	-6	-7	-8	8	4	5	0	-3	-5	3	-3	7	-5	10	7	-7	-4	-1	-4	3	2
Feb.	91	-7	-5	-7	-10	7	4	3	1	-3	-4	2	-2	6	-4	9	0	-8	-3	-1	-4	6	3
Mar.	91	-7	-5	-6	-6	6	3	3	2	-4	-3	3	-1	5	-6	8	2	-10	-3	-1	-4	4	6
Apr.	91	-6	-3	-5	-5	6	2	3	4	-5	-1	0	1	6	-8	12	6	-12	-2	-1	-3	5	8
May	91	-5	-1	-3	-2	6	1	3	4	-5	-1	2	1	7	-9	9	6	-10	0	-1	-3	6	10
June	91	-4	2	-3	-1	5	1	3	6	-4	0	2	1	5	-8	6	0	-7	0	-2	-2	6	12
July	91	-3	5	-2	0	4	1	4	6	-4	2	2	2	6	-7	7	8	-8	1	-2	0	5	8
Aug.	91	-2	6	-2	1	1	2	4	6	-4	0	2	0	4	-7	8	8	-4	1	-2	1	5	9
Sept.	91	-1	6	-1	0	1	1	3	5	-4	0	0	0	4	-6	6	7	-6	1	-2	3	6	8
Oct.	91	-1	7	-1	-2	1	-1	4	4	-3	0	2	0	4	-7	6	14	-5	1	-1	4	6	8
Nov.	91	-1	7	0	-3	0	-1	3	1	-2	0		0	3	-9	4	7	-5	0	-1	4	4	8
Dec.	91	-2	6	-1	-4	-1	-2	2	0	-2	-1		0	1	-11	3	0	-4	1	-2	4	4	6
Jan.	92	-2	7	-1	-2	1	-1	3	1	-2	1		2	3	-10	8	5	2	4		6	8	8
Feb.	92	-1	8						3							4	6	-2	2			8	8
		Ten Year Annual Growth Rate, Percent																					
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	7	7	3	3	2	2	6	8